

FILED MAR 23 2006

SENATE FILE 2390
BY COMMITTEE ON WAYS AND MEANS

(SUCCESSOR TO SSB 1060)

Passed Senate, Date 3-28-06 Passed House, Date 4-4-06
Vote: Ayes 49 Nays 1 Vote: Ayes 95 Nays 3
Approved _____

A BILL FOR

1 An Act relating to the sales and use tax exemption for central
2 office equipment and transmission equipment used in
3 telecommunications operations.

4 BE IT ENACTED BY THE GENERAL ASSEMBLY OF THE STATE OF IOWA:

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SF 2390

1 Section 1. Section 423.3, Code Supplement 2005, is amended
2 by adding the following new subsection:

3 NEW SUBSECTION. 47A. a. Subject to paragraph "b", the
4 sales price from the sale or rental of central office
5 equipment or transmission equipment primarily used by local
6 exchange carriers and competitive local exchange service
7 providers as defined in section 476.96; by franchised cable
8 television operators, mutual companies, municipal utilities,
9 cooperatives, and companies furnishing communications services
10 that are not subject to rate regulation as provided in chapter
11 476; by long distance companies as defined in section 477.10;
12 or for a commercial mobile radio service as defined in 47
13 C.F.R. § 20.3 in the furnishing of telecommunications services
14 on a commercial basis. For the purposes of this subsection,
15 "central office equipment" means equipment utilized in the
16 initiating, processing, amplifying, switching, or monitoring
17 of telecommunications services. "Transmission equipment"
18 means equipment utilized in the process of sending information
19 from one location to another location. "Central office
20 equipment" and "transmission equipment" also include ancillary
21 equipment and apparatus which support, regulate, control,
22 repair, test, or enable such equipment to accomplish its
23 function.

24 b. The exemption in this subsection shall be phased in by
25 means of tax refunds as follows:

26 (1) If the sale or rental occurs on or after July 1, 2006,
27 through June 30, 2007, one-seventh of the state tax on the
28 sales price shall be refunded.

29 (2) If the sale or rental occurs on or after July 1, 2007,
30 through June 30, 2008, two-sevenths of the state tax on the
31 sales price shall be refunded.

32 (3) If the sale or rental occurs on or after July 1, 2008,
33 through June 30, 2009, three-sevenths of the state tax on the
34 sales price shall be refunded.

35 (4) If the sale or rental occurs on or after July 1, 2009,

1 through June 30, 2010, four-sevenths of the state tax on the
2 sales price shall be refunded.

3 (5) If the sale or rental occurs on or after July 1, 2010,
4 through June 30, 2011, five-sevenths of the state tax on the
5 sales price shall be refunded.

6 (6) If the sale or rental occurs on or after July 1, 2011,
7 through June 30, 2012, six-sevenths of the state tax on the
8 sales price shall be refunded.

9 (7) If the sale or rental occurs on or after July 1, 2012,
10 the sales price is exempt and no payment of tax and subsequent
11 refund are required.

12 c. For sales or rentals occurring on or after July 1,
13 2006, through June 30, 2012, a refund of the tax paid as
14 provided in paragraph "b", subparagraph (1), (2), (3), (4),
15 (5), or (6), must be applied for, not later than six months
16 after the month in which the sale or rental occurred, in the
17 manner and on the forms provided by the department. Refunds
18 shall only be of the state tax collected. Refunds authorized
19 shall accrue interest at the rate in effect under section
20 421.7 from the first day of the second calendar month
21 following the date the refund claim is received by the
22 department.

23 EXPLANATION

24 This bill exempts from sales and use taxes beginning July
25 1, 2012, central office equipment and transmission equipment
26 sold or rented for use in transporting communications services
27 by local exchange carriers, competitive local exchange service
28 providers, certain franchised cable television operators,
29 mutual companies, cooperatives, and municipal utilities not
30 subject to rate regulation, long distance companies, and
31 commercial mobile radio services. From July 1, 2006, until
32 June 30, 2012, the taxes on such equipment are paid but a
33 refund may be applied for. The amount of the refund is one-
34 seventh of the tax for sales or rentals occurring in FY 2006-
35 2007. The refund increases each succeeding fiscal year by

1 another one-seventh of the tax paid.

2 The bill defines central office equipment as equipment used
3 in initiating, processing, amplifying, switching, or
4 monitoring of telecommunications services and any ancillary
5 equipment. Transmission equipment is defined as equipment
6 utilized in sending information and any ancillary equipment.

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Fiscal Services Division
Legislative Services Agency
Fiscal Note

SF 2390 - Central Office Equipment Sales & Use Exemption (LSB 6642 SV)
Analyst: Jeff Robinson (Phone: [515] 281-4614) (jeff.robinson@legis.state.ia.us)
Fiscal Note Version - New
Requested by Senator Jeff Danielson

Description

Senate File 2390 provides a State and local option sales and use tax exemption for specified telecommunications central office and transmission equipment. The exemption applies to equipment purchased or rented, starting July 1, 2012, by local exchange carriers, competitive local exchange service providers, franchised cable television operators, mutual companies, cooperatives, municipal utilities not subject to regulation, long distance companies, and commercial mobile radio services.

The Bill provides for a phased-in refund of sales taxes paid on telecommunications equipment, beginning July 1, 2006. The refunds are provided in sevenths, with one-seventh of the tax paid in FY 2007 refunded that year and six-sevenths refunded in FY 2012. Local option sales taxes are not refunded during the phase-in period.

Assumptions

- Investment in central office and transmission equipment by the Iowa telecommunication industry will equal \$320.0 million in FY 2006 and will grow 8.4% per year for the next five fiscal years and 4.0% per year after that.
- Approximately 49.0% of the investment will be subject to sales and use tax under current law.
- The State sales and use tax rate is 5.0%. By FY 2013, the average local option rate will be 1.3%.

Fiscal Impact

The sales and use tax exemption created in SF 2390 will reduce net General Fund revenue by the following estimated amounts:

- FY 2007 = \$1.2 million
- FY 2008 = \$2.6 million
- FY 2009 = \$4.3 million
- FY 2010 = \$6.2 million
- FY 2011 = \$8.4 million
- FY 2012 = \$10.5 million
- FY 2013 = \$12.7 million

The Bill will also reduce local option sales tax revenue by an estimated \$3.3 million per year, beginning in FY 2013.

Sources

Department of Revenue
Property Tax Records
Telecommunications Industry Association (TIA Online.org)

Dennis C Prouty

March 27, 2006

The fiscal note and correctional impact statement for this bill was prepared pursuant to Joint Rule 17 and pursuant to Section 2.56, Code of Iowa. Data used in developing this fiscal note and correctional impact statement are available from the Fiscal Services Division, Legislative Services Agency to members of the Legislature upon request.

Danielson co-chair

Revised

SSB# 1060

Wreck co-chair

Ways + Means

Larson

Quirmbach

Successed By
HF 2390

SENATE FILE _____

BY (PROPOSED COMMITTEE ON
WAYS AND MEANS BILL BY
CO-CHAIRPERSON ZIEMAN)

Passed Senate, Date _____

Passed House, Date _____

Vote: Ayes _____ Nays _____

Vote: Ayes _____ Nays _____

Approved _____

A BILL FOR

1 An Act relating to the sales and use tax exemption for central
2 office equipment and transmission equipment used in
3 telecommunications operations.

4 BE IT ENACTED BY THE GENERAL ASSEMBLY OF THE STATE OF IOWA:

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1 Section 1. Section 423.3, Code 2005, is amended by adding
2 the following new subsection:

3 NEW SUBSECTION. 85. The sales price from the sale or
4 rental of central office equipment or transmission equipment
5 primarily used by local exchange carriers and competitive
6 local exchange service providers as defined in section 476.96;
7 by franchised cable television operators, mutual companies,
8 municipal utilities, cooperatives, and companies furnishing
9 communications services that are not subject to rate
10 regulation as provided in chapter 476; by long distance
11 companies as defined in section 477.10; or for a commercial
12 mobile radio service as defined in 47 C.F.R. § 20.3 in the
13 furnishing of telecommunications services on a commercial
14 basis. For the purposes of this subsection, "central office
15 equipment" means equipment utilized in the initiating,
16 processing, amplifying, switching, or monitoring of
17 telecommunications services. "Transmission equipment" means
18 equipment utilized in the process of sending information from
19 one location to another location. "Central office equipment"
20 and "transmission equipment" also include ancillary equipment
21 and apparatus which support, regulate, control, repair, test,
22 or enable such equipment to accomplish its function.

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EXPLANATION

24 This bill exempts from state sales and use taxes central
25 office equipment and transmission equipment sold or rented for
26 use in transporting communications services by local exchange
27 carriers, competitive local exchange service providers,
28 certain franchised cable television operators, mutual
29 companies, cooperatives, and municipal utilities not subject
30 to rate regulation, long distance companies, and commercial
31 mobile radio services. The bill defines central office
32 equipment as equipment used in initiating, processing,
33 amplifying, switching, or monitoring of telecommunications
34 services and any ancillary equipment. Transmission equipment
35 is defined as equipment utilized in sending information and

1 any ancillary equipment.

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SENATE FILE 2390

AN ACT

RELATING TO THE SALES AND USE TAX EXEMPTION FOR CENTRAL OFFICE
EQUIPMENT AND TRANSMISSION EQUIPMENT USED IN
TELECOMMUNICATIONS OPERATIONS.

BE IT ENACTED BY THE GENERAL ASSEMBLY OF THE STATE OF IOWA:

Section 1. Section 423.3, Code Supplement 2005, is amended
by adding the following new subsection:

NEW SUBSECTION. 47A. a. Subject to paragraph "b", the sales price from the sale or rental of central office equipment or transmission equipment primarily used by local exchange carriers and competitive local exchange service providers as defined in section 476.96; by franchised cable television operators, mutual companies, municipal utilities, cooperatives, and companies furnishing communications services that are not subject to rate regulation as provided in chapter 476; by long distance companies as defined in section 477.10; or for a commercial mobile radio service as defined in 47 C.F.R. § 20.3 in the furnishing of telecommunications services on a commercial basis. For the purposes of this subsection, "central office equipment" means equipment utilized in the initiating, processing, amplifying, switching, or monitoring of telecommunications services. "Transmission equipment" means equipment utilized in the process of sending information from one location to another location. "Central office equipment" and "transmission equipment" also include ancillary

equipment and apparatus which support, regulate, control, repair, test, or enable such equipment to accomplish its function.

b. The exemption in this subsection shall be phased in by means of tax refunds as follows:

(1) If the sale or rental occurs on or after July 1, 2006, through June 30, 2007, one-seventh of the state tax on the sales price shall be refunded.

(2) If the sale or rental occurs on or after July 1, 2007, through June 30, 2008, two-sevenths of the state tax on the sales price shall be refunded.

(3) If the sale or rental occurs on or after July 1, 2008, through June 30, 2009, three-sevenths of the state tax on the sales price shall be refunded.

(4) If the sale or rental occurs on or after July 1, 2009, through June 30, 2010, four-sevenths of the state tax on the sales price shall be refunded.

(5) If the sale or rental occurs on or after July 1, 2010, through June 30, 2011, five-sevenths of the state tax on the sales price shall be refunded.

(6) If the sale or rental occurs on or after July 1, 2011, through June 30, 2012, six-sevenths of the state tax on the sales price shall be refunded.

(7) If the sale or rental occurs on or after July 1, 2012, the sales price is exempt and no payment of tax and subsequent refund are required.

c. For sales or rentals occurring on or after July 1, 2006, through June 30, 2012, a refund of the tax paid as provided in paragraph "b", subparagraph (1), (2), (3), (4), (5), or (6), must be applied for, not later than six months after the month in which the sale or rental occurred, in the manner and on the forms provided by the department. Refunds shall only be of the state tax collected. Refunds authorized shall accrue interest at the rate in effect under section 421.7 from the first day of the second calendar month

following the date the refund claim is received by the department.

JEFFREY M. LAMBERTI
President of the Senate

CHRISTOPHER C. RANTS
Speaker of the House

I hereby certify that this bill originated in the Senate and is known as Senate File 2390, Eighty-first General Assembly.

MICHAEL E. MARSHALL
Secretary of the Senate

Approved _____, 2006

THOMAS J. VILSACK
Governor